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# CANADIAN PIONEER OILS LTD.

CANADIAN  
PIONEER OILS  
LTD. 1985

## 1985 ANNUAL REPORT



## Corporate Profile

Canadian Pioneer Oils Ltd. is a Canadian, Calgary based, public oil and gas Corporation listed on the Alberta Stock Exchange. Incorporated in Alberta in 1978, the Corporation is engaged in the exploration, development, production and acquisition of oil and gas in Canada and the United States. Its principal areas of activity are in central and south-central Alberta. Its United States activities center on gas production in Wyoming and Louisiana and oil production in Texas. At June 30, 1985, the Corporation had 10,454,947 Class A Common Shares and 29,000 First Preference Shares outstanding. Northgate Exploration Limited, a Canadian public mining corporation, is the major shareholder, owning 8,051,856 shares (77%).

## Notice of Annual Meeting

The Annual Meeting of Shareholders will be held at the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta on Thursday, December 5, 1985 at 3:00 P.M. in the Cardium Rooms A and B.

### Metric Conversion Table

Traditional Unit	S.I. Unit	Conversion Factor
Barrel	Cubic Metre (m <sup>3</sup> )	1 Barrel = 0.159 m <sup>3</sup>
		1 m <sup>3</sup> = 6.29 barrels
Cubic Foot (ft <sup>3</sup> )	Cubic Metre (m <sup>3</sup> )	1 ft <sup>3</sup> = 0.028 m <sup>3</sup>
at 14.696 psia + 60°F		
Acre	Hectare	1 m <sup>3</sup> = 35.383 ft <sup>3</sup>
		1 acre = 0.405 ha
		1 hectare = 2.471 acres

### Abbreviations

Throughout this report standard oil and gas abbreviations have been used as follows:

MSTB	Thousand Stock Tank Barrels
BOPD	Barrels of Oil per Day
BCF	Billion Cubic Feet
MCFD	Thousand Cubic Feet per Day
D&A	Dry and Abandoned

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Production rev  
Cash flow (def  
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Land holdings  
Gross acres  
Net acres

	1985	1984	% Change
Production rev	\$ 3,056	\$ 688	+ 344%
Cash flow (def	\$ 1,090	(412)	
per share	\$ .11	\$ (.11)	
Net earnings (l	\$ 328	\$ (554)	
	\$ .03	\$ (.20)	
	\$ 499	\$ (142)	
	\$ 1,271	\$ 507	+ 151%
	\$11,984	\$11,072	+ 8%
	\$ 6,150	\$ 5,650	+ 9%
	\$ 4,947	\$ 4,028	+ 23%
	<b>10,454,947</b>	<b>9,882,670</b>	+ 6%
	30,583	1,095	+ 2,693%
	84	3	
	<b>783,114</b>	<b>259,150</b>	+ 202%
	2,146	710	
	293,500	312,000	- 6%
	<b>17,040,000</b>	<b>16,810,000</b>	+ 1%
	8	3	
	11	7	
	<b>12</b>	<b>5</b>	
	<b>31</b>	<b>15</b>	+ 107%

294,616      308,350      -4%  
54,626      65,500      -17%

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## Highlights of the 1985 Fiscal Year

### Financial (\$'000 except per share amounts)

	1985	1984	% Change
Production revenue	\$ 3,056	\$ 688	+ 344%
Cash flow (deficit) per share	\$ 1,090 \$.11	(412) \$(.11)	
Net earnings (loss) per share	\$ 328 \$.03	\$ (554) \$(.20)	
Working capital (deficit)	\$ 499	\$ (142)	
Capital expenditures	\$ 1,271	\$ 507	+ 151%
Book value of assets	\$11,984	\$11,072	+ 8%
Long term debt	\$ 6,150	\$ 5,650	+ 9%
Shareholders' equity	\$ 4,947	\$ 4,028	+ 23%
Number of common shares outstanding	10,454,947	9,882,670	+ 6%

### Operating

Production			
Oil — barrels	30,583	1,095	+ 2,693%
— barrels per day	84	3	
Gas — thousand cubic feet	783,114	259,150	+ 202%
— thousand cubic feet per day	2,146	710	
Reserves (proven and probable)			
Oil — barrels	293,500	312,000	-6%
Gas — thousand cubic feet	17,040,000	16,810,000	+ 1%
Wells drilled (gross)			
Oil	8	3	
Gas	11	7	
Dry	12	5	
	<u>31</u>	<u>15</u>	+ 107%
Land holdings			
Gross acres	294,616	308,350	-4%
Net acres	54,626	65,500	-17%

## Report to Shareholders

Canadian Pioneer has completed the most successful year of its corporate history. In the 12 months ended June 30, 1985, major operating and financial gains were achieved, exceeding projections of a year ago.

- Gas production increased threefold to 2,146 thousand cubic feet per day
- Oil production rose from three to 84 barrels of oil per day
- Production revenue more than quadrupled to \$3,056,000
- Operating cash flow increased to \$1,090,000 from a deficit of \$412,000 in the previous year
- Net earnings increased to \$328,000 from a loss of \$554,000 in the previous year.

### Financial

Production revenues in fiscal 1985, more than quadrupled to \$3,056,000 from \$688,000 in 1984. This substantial increase was realized despite wellhead price reductions for both oil and gas in the United States where approximately 20 percent of the Corporation's revenues were generated.

Operating cash flow increased to \$1,090,000 from a deficit of \$412,000 in the previous fiscal year. Canadian Pioneer generated net earnings of \$328,000, or 3¢ per share, in 1985 compared to a loss of \$554,000, or 20¢ per share, in 1984. The previous year's figures have been restated to reflect the Corporation's change in accounting policy to the full cost method from the successful efforts method. Working capital at the 1985 fiscal year end was \$499,000, a significant improvement from the \$142,000 deficit of a year earlier.

The Corporation was successful in raising \$961,000 from the placement of common shares and preference shares. This includes \$437,500 from the placement of 260,417 flow through common shares at a price of \$1.68 per share. Of this, \$122,000 was expended by June 30, and the remainder will be expended prior to December 31, 1985 on exploration in Canada.

### Production

Both oil and gas production increased significantly during the 1985 fiscal year. Gas production tripled to 2,146 thousand cubic feet per day from 710 thousand cubic feet per day in 1984. Production of oil averaged 84 barrels per day compared to three barrels per day in the previous year. The major production acquisition completed at the end of June 1984, the placing on stream of new and previously shut-in wells, conversion of royalty interests to larger working interests in farmout wells and a moderate improvement in gas contract nominations all contributed to the production gains. Production from Canadian Pioneer's Plain area gas wells will increase in future due to the Corporation's 10.42 percent participation in a newly constructed gas plant.

### Reserves

As a result of drilling activity during the year, Canadian Pioneer was successful in replacing production with new reserve additions. Overall reserves have not changed significantly. At fiscal year end, the Corporation's proved and probable reserves were estimated at 204,000 barrels of oil and 17.0 billion cubic feet of gas. Approximately 70 percent of the oil and gas reserves are proven.

### **Exploration**

During the year Canadian Pioneer acquired land in specific areas where a strong land position could be assembled with large working interests, near existing pipelines and facilities. Consistent with that philosophy, Canadian Pioneer expended \$592,000 on land during 1985 and acquired 6,849 gross acres (4,762 net acres) in the Clive, Trochu and Birch Wavy Lake areas of Central Alberta.

The Corporation was very successful in generating industry interest in its lands and as a result, drilling activity on Corporation lands during 1985 doubled over that of the previous year. Canadian Pioneer's drilling expenditures amounted to \$231,000. In addition to these expenditures many wells were drilled on a farmout basis at no cost to the Corporation. A total of 31 wells were drilled, including 27 wells in Canada and four wells in the United States. Twenty-seven of the wells were drilled on a farmout basis at no cost to the Corporation. The drilling program resulted in eight oil wells and 11 gas wells for a combined success ratio of 61 percent.

### **Outlook**

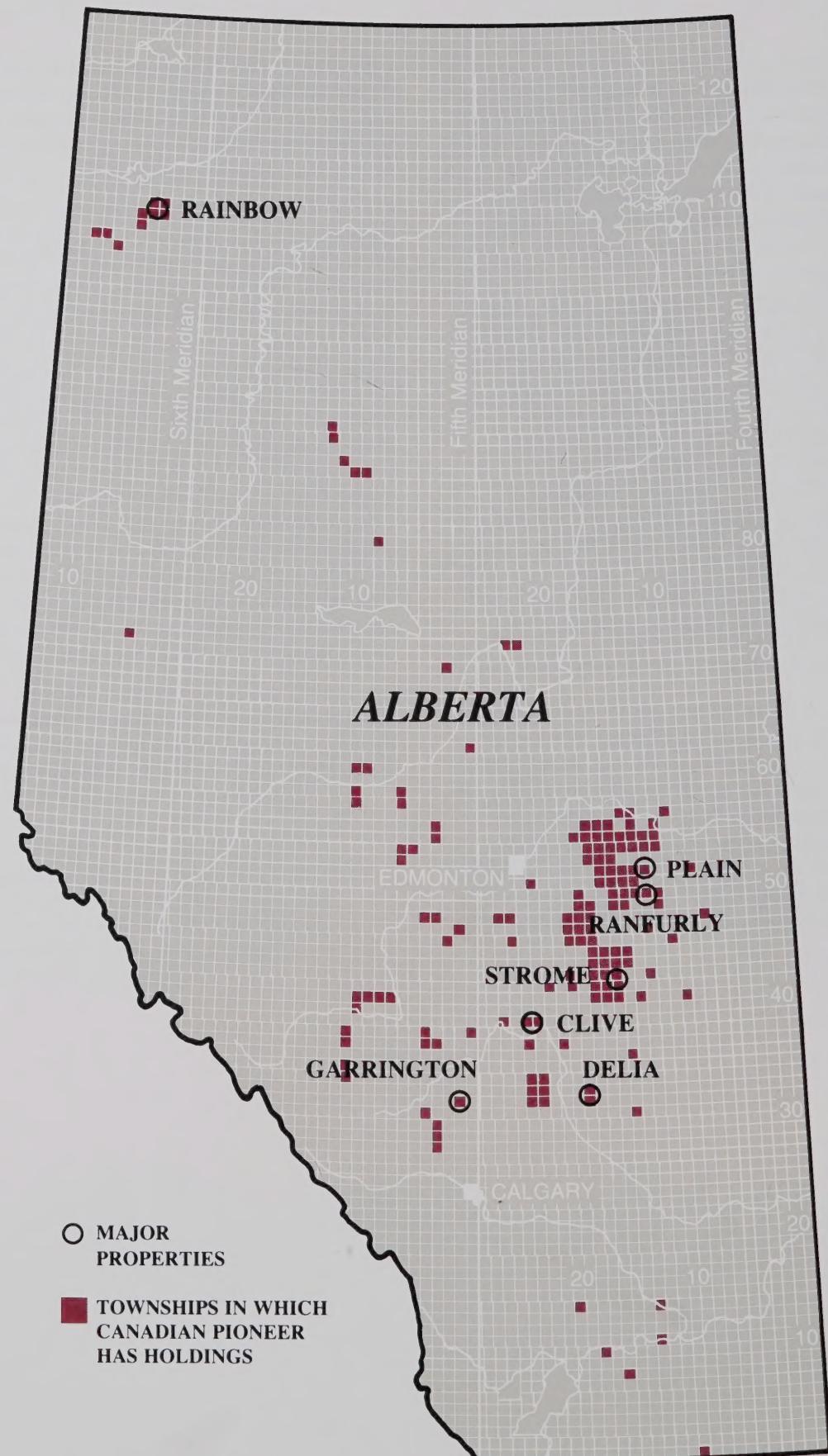
While it is expected that oil and gas prices during the coming year will remain soft with some downward potential, increased export gas volumes should more than offset the impact of any price reduction. The new Western Accord and Alberta Government royalty and incentive programs, together with the recent agreement on gas price deregulation, have laid the ground work for the petroleum industry to operate in a less regulated, more market controlled

environment. With large gas reserves and excess deliverability, Canadian Pioneer is well positioned to capitalize on increasing export volumes. Accordingly, further revenue increases from existing reserves should occur in the coming year.

One of the Corporation's major goals is to expand its revenue and asset base through acquisition. Although numerous acquisition opportunities were reviewed during the past year and several offers submitted, to date the Corporation has not been successful in transacting a deal on acceptable terms. While many properties have been available for acquisition, few have met with Canadian Pioneer's quality and economic criteria. Those that have were often only available at prices which, in the Corporation's view, were excessive. Nevertheless several potential acquisitions are presently being pursued and the Corporation is confident that it will conclude a satisfactory transaction in the not too distant future. Canadian Pioneer will also continue to seek joint venture partners to supplement existing funds enabling more aggressive exploitation of its extensive land holdings and inventory of drilling prospects.

Fiscal 1985 was a year of consolidation, reorganization and impressive growth for Canadian Pioneer, and the Corporation intends to maintain this momentum and growth into 1986 and beyond.

November 12, 1985



## Exploration and Development

Canadian Pioneer's exploration philosophy is based on drilling and operating prospects generated internally, in areas that provide low to medium risk, have multiple reservoir potential and where drilling success could generate immediate cash flow. Drilling activity is primarily in areas of Alberta, where the Corporation has geological and operating expertise and where large working interests can be assembled. Special emphasis is placed on proximity to existing pipelines and plants, and the availability of surrounding Crown or freehold lands to enable consolidation of a strong land position. In the United States, exploration and development of existing land holdings is pursued primarily through farmouts.

### Land Activity

The Corporation acquired 6,849 gross acres (4,762 net acres) and expended approximately \$592,000 on land during the fiscal year. The primary areas of activity were in the Clive, Trochu and Birch Wavy Lake areas of central Alberta.

In the Clive area, 960 gross acres (480 net acres) were acquired at a Crown land sale in April of 1985 following an extensive seismic program that was conducted earlier in the year. The Corporation now owns in excess of 1,000 net acres along a geological trend in this area. Canadian Pioneer has also established a strong land position in the Trochu area where 2,837 net acres were acquired. With additional purchases since the fiscal year end, the Corporation now controls more than 5,000 net acres in the Trochu area. In the Birch Wavy Lake area, 1,388 gross acres (590 net acres) were acquired to complete drilling spacing units for committed wells. The Corporation is continuing to assemble land in other new exploration areas of Alberta.

Canadian Pioneer's land holdings are as follows:

	1985		1984	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Canada	217,334	49,948	213,650	57,200
United States	77,282	4,678	94,700	8,300
TOTAL	294,616	54,626	308,350	65,500

### Drilling Activity

During fiscal 1985, Canadian Pioneer's drilling activity doubled over the previous year with the Corporation participating in the drilling of 31 wells. Twenty-seven of the wells were drilled in Canada, including 23 on a farmout basis, resulting in six oil wells and ten gas wells. Nine of the gas wells are contracted and three have been placed on stream. In the United States, four wells were drilled on a farmout basis and resulted in two oil wells and one gas well.

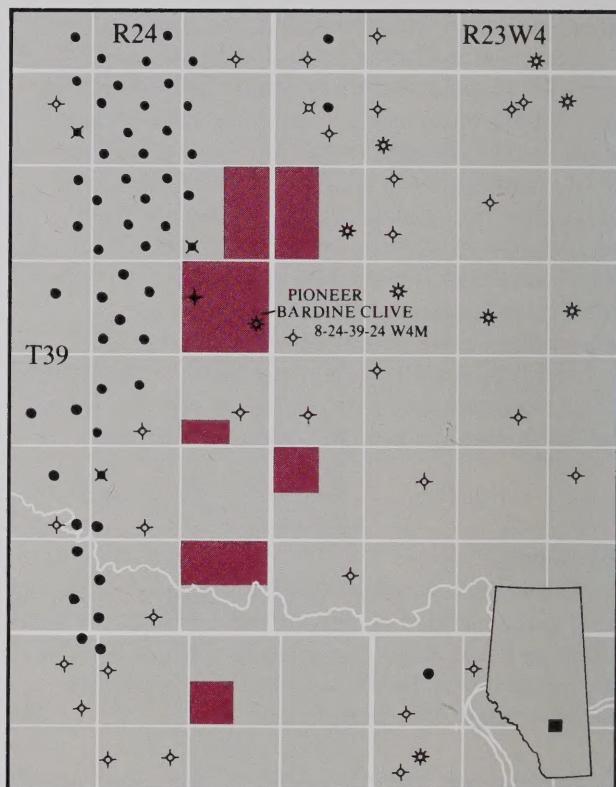
Fiscal Year	Canada			United States			Total
	Oil	Gas	D&A	Oil	Gas	D&A	
1981	—	16	1	1	3	1	27
1982	2	19	4	3	—	2	30
1983	—	22	6	2	—	2	32
1984	—	7	4	3	—	1	15
1985	6	10	11	2	1	1	31

In the Clive area of central Alberta, the Corporation drilled and completed a 6,200 foot well to test a Leduc seismic anomaly. Although the well, in which the Corporation has a 50 percent working interest did not encounter Nisku or Leduc oil, it was cased as a potential multiple zone gas well. It is anticipated that the well will be completed, and on stream this winter. Additional seismic is now being shot in the area to confirm the feasibility of follow-up drilling.

In the Birch Wavy Lake area 17 wells were drilled under farmout arrangements, the majority of which were with Merland Explorations Limited. This program resulted in nine gas wells, three of which are on stream. In the Glenavis area, the Corporation participated in two wells. One of the wells has been completed as a water disposal well which will significantly reduce water disposal costs for the Corporation's Glenavis oil producing property.

Canadian Pioneer's land holdings in the Birch Wavy Lake area of east central Alberta, which comprise the greatest portion of the Corporation's developed and undeveloped lands, continue to attract industry attention. The Corporation recently entered into a seismic and drilling program with another operator in this area, which provides for the drilling of one commitment well and the evaluation and possible drilling of up to a maximum of 19 additional wells before the end of March 1986. The gas reserves from successful wells drilled under this program will be contracted under a full price TransCanada PipeLines Limited contract.

During the coming winter, several 5,300 foot wells will be drilled in the Trochu area to test the hydrocarbon potential of the Viking, Glauconite, Basal Quartz and Pekisko reservoirs. The Corporation will continue to seek suitable joint venture partners to enable a more aggressive drilling program in the coming year.



CLIVE AREA, Alberta

- CANADIAN PIONEER Land
- Oil Well
- ★ Gas Well
- ◊ Dry & Abandoned Well
- ✖ Abandoned Oil/Water Injection

## Production and Operations

Canadian Pioneer realized significant production gains for both oil and gas during 1985. Gas production tripled to 783 million cubic feet (2,146 thousand cubic feet per day) from 259 million cubic feet (710 thousand cubic feet per day) for 1984. The substantial increase is attributable to the major production acquisition at the end of fiscal 1984, new gas properties being placed on production in Alberta, conversion of royalty interests to larger working interests in farmout wells, and a moderate improvement in gas nominations.

During 1985, four gas wells were placed on production in the Strome area of Alberta. This property is now the Corporation's second largest gas producer. New gas production was also obtained from two gas wells in the Bruce area, one gas well in the Pinedale area and one gas well in the Duvernay area of Alberta. In the Meeteetsee field of Wyoming, the Corporation's largest gas producing property in the United States, major reductions in gas contract nominations were experienced.

The majority of Canadian Pioneer's gas reserves are contracted to TransCanada PipeLines Limited at full price. With excess deliverability, the Corporation is well positioned to capitalize on improving gas markets. The Corporation is also seeking to maximize

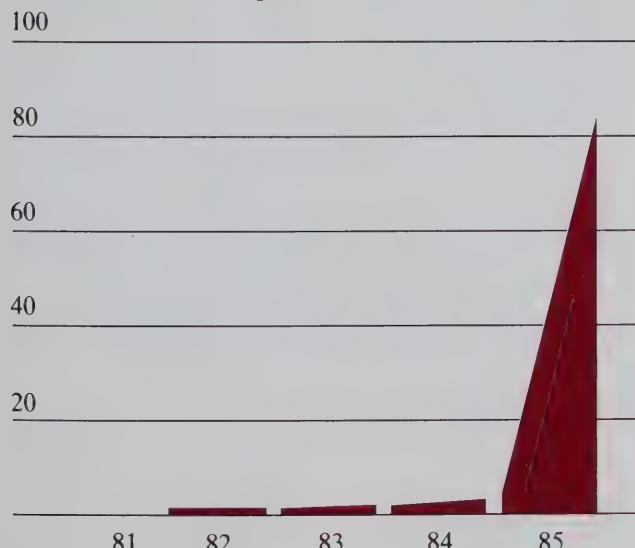
gas production by pursuing discount gas contracts for its shut-in gas reserves that are not contracted.

Oil production during the year increased to 30,600 barrels (84 barrels per day) compared to 1,095 barrels (three barrels per day) for 1984. The large increase was due to the purchase of producing properties and new oil wells coming on production in the Lochend, Cherhill, and Otter areas of Alberta. At Garrington Alberta, the Corporation continued to pursue unitization and implementation of a waterflood enhanced recovery scheme. Garrington is the Corporation's largest producing oil property and production in this area could increase by at least 50 percent from waterflood response.

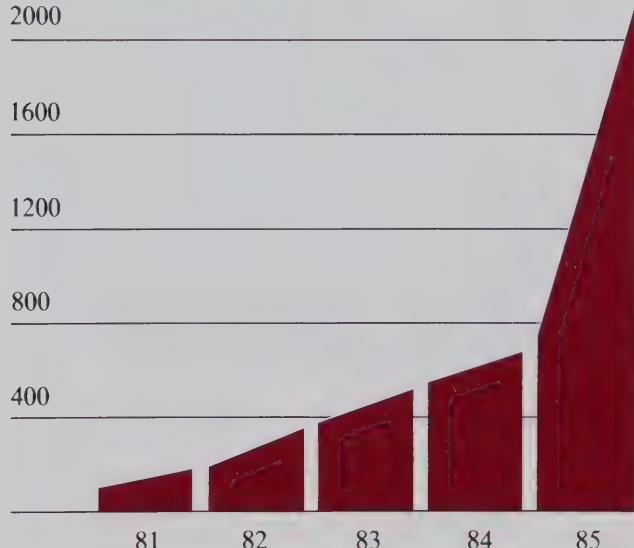
In the United States, two new producing oil wells in which the Corporation has small interests, were placed on production in the Altamont Bluebell field in Utah, one of which was producing at a rate of 800 barrels of oil per day at year end.

At June 30, 1985, Canadian Pioneer had 134 producing wells including 23 oil and 43 gas wells in Canada and 33 oil and 35 gas wells in the United States. During the year 82 percent of the Corporation's oil production and 85 percent of gas production was derived from Canadian operations.

### Oil Production (bopd)



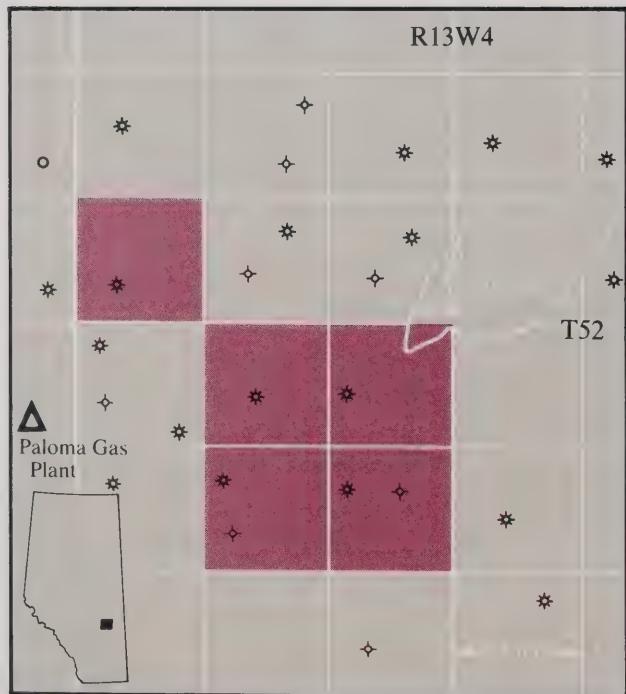
### Gas Production (mcfd)



## Plain Area, Alberta

Canadian Pioneer owns varying interests in three producing and two shut-in gas wells in the Plain area, which is the Corporation's largest gas producing property. The gas reserves in this area are contracted to TransCanada PipeLines Limited.

The 6-19-52-13W4M and 13-8-52-13W4M gas wells, in which the Corporation owns a 37.5 percent working interest, produced at average rates of 660 and 615 thousand cubic feet per day respectively in 1985. The 6-17-52-13W4M well in which the Corporation has a 25 percent working interest produced at an average rate of 315 thousand cubic feet per day in 1985.



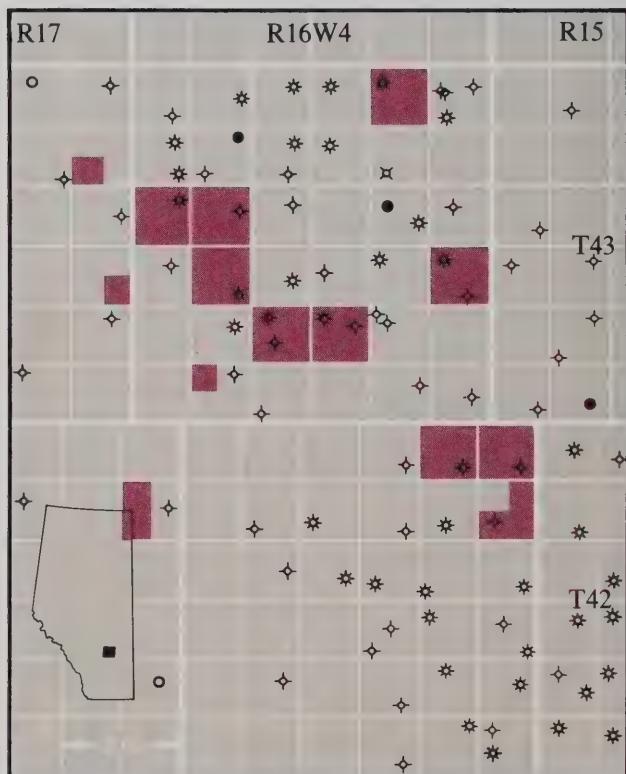
PLAIN AREA, Alberta

- CANADIAN PIONEER Land
- Location
- Gas Well
- Dry & Abandoned Well

## Strome Area, Alberta

In the Strome area, where four gas wells came on stream during the year, Canadian Pioneer owns varying interests in five producing and two shut-in gas wells. This property is the Corporation's second largest producer. The gas reserves are contracted to TransCanada PipeLines Limited.

The 2-35-42-16W4M gas well, which has been on stream since January 1983, produced at an average rate of 310 thousand cubic feet per day during 1985. The Basal Quartz zone was re-completed in December 1984 as a dual zone producer. In October 1984 four other gas wells, 14-9-43-16W4M, 13-10-43-16W4M, 1-17-43-16W4M, and 12-35-43-16W4M were placed on production from the Lower Mannville Sands, and have been averaging about 4.1 million cubic feet per day.



STROME AREA, Alberta

- CANADIAN PIONEER Land
- Location
- Oil Well
- Gas Well
- Dry & Abandoned Well

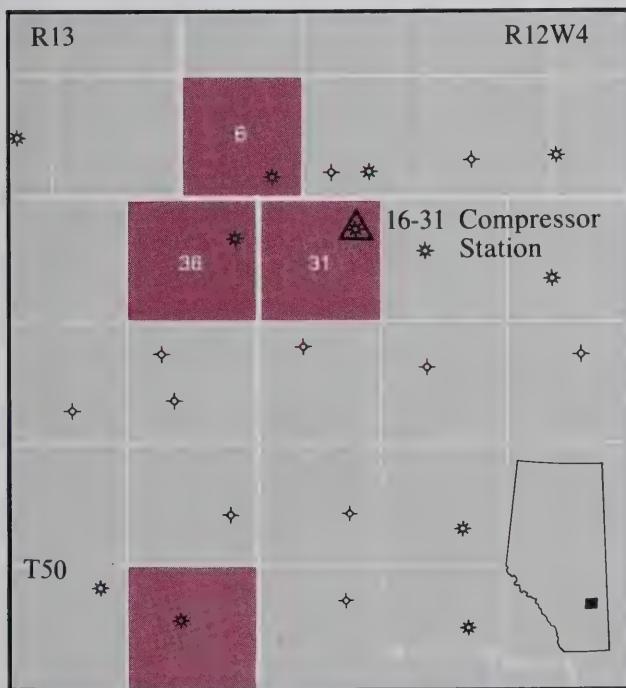
### Ranfurly Area, Alberta

The Corporation operates three producing gas wells in the Ranfurly area and has an interest in one non-operated gas well. Gas production from two gas wells, 9-36-50-13W4M and 1-6-51-12W4M in which Canadian Pioneer has a 15 percent working interest, is sold under a discount contract to ATCOR Resources Ltd. Gas from another well, 16-31-50-12W4M, in which the Corporation has a 15 percent working interest in the Viking zone and a 7.5 percent interest in other zones, is sold under a Northwestern Utilities Ltd. contract for the Viking zone and an ATCOR contract for other zones. The three wells are currently producing at a combined rate of 2.0 million cubic feet per day to the ATCOR contract, while the Viking zone in the 16-31-50-12W4M well is producing 150 thousand cubic feet per day to the Northwestern Utilities contract. The fourth well, 11-13-50-13W4M, a non-operated gas well in which the Corporation owns an 18.75 percent working interest, began production in August, 1983 and is producing an average of 335

thousand cubic feet per day. Canadian Pioneer also operates and owns a 30 percent working interest in a compressor facility located at 16-31-50-12W4M which processes Ranfurly gas and generates additional revenue for the Corporation by processing third party gas.

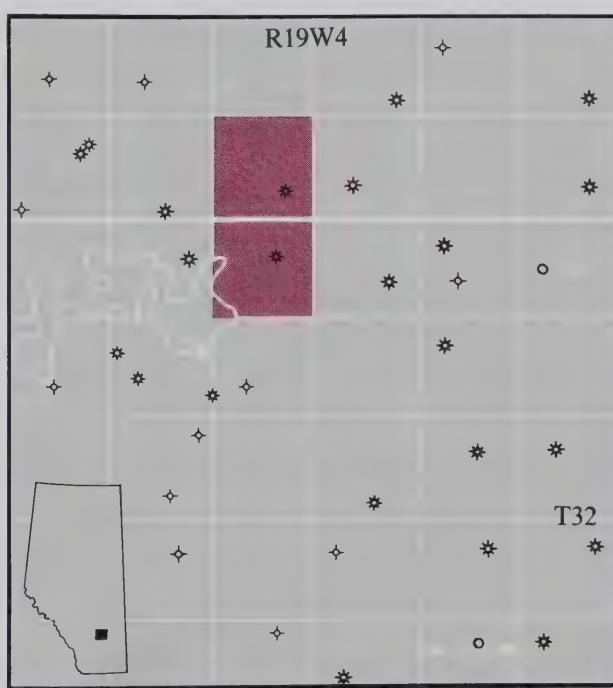
### Delia Area, Alberta

In the Delia area, the Corporation owns a 15 percent working interest in two Basal Belly River gas wells. The two wells went on stream in October, 1984. The 8-4-33-19W4M and 10-33-32-19W4M wells produced an average of 1,250 and 370 thousand cubic feet per day respectively during fiscal 1985. Canadian Pioneer also owns approximately three percent interest in the gas processing facility servicing this area.



RANFURLY AREA, Alberta

CANADIAN PIONEER Land  
 Gas Well  
 Dry & Abandoned Well



DELIA AREA, Alberta

CANADIAN PIONEER Land  
 Location  
 Gas Well  
 Dry & Abandoned Well

## Garrington Area, Alberta

The Garrington area, which contains five producing Viking oil wells, is the Corporation's major oil property in Alberta. Canadian Pioneer has a 9.9 percent working interest in four oil wells in Section 18-32-2W5M which currently produces at an average total rate of 240 barrels of oil per day. A gas gathering system was installed in February, 1985 and solution gas from the four wells in Section 18 is now being sold to TransCanada PipeLines Limited. The Corporation also has a 20 percent working interest before payout, converting to an 18 percent working interest after payout, in the 6-30-32-2W5M oil well which currently produces at a rate of 15 barrels of oil per day.

Unitization negotiations for this property continued during the year. The objective of unitization is to enable initiation of a waterflood enhanced recovery scheme, which should significantly increase production and cash flow from this property.

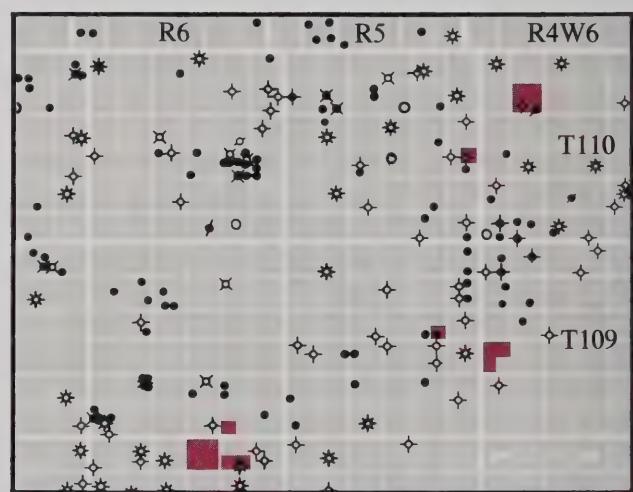


GARRINGTON AREA, Alberta

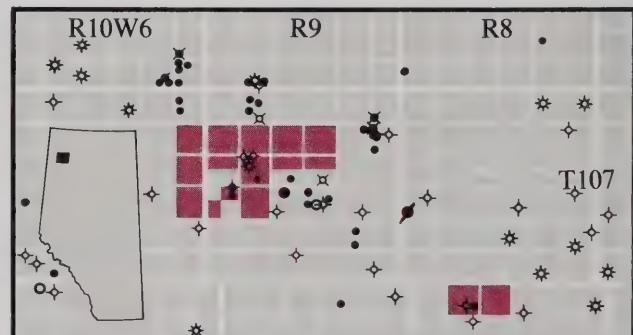
- CANADIAN PIONEER Land
- Location
- Oil Well
- ★ Gas Well
- ◆ Dry & Abandoned Well
- ☒ Abandoned Oil/Water Injection

## Rainbow Area, Alberta

The Corporation owns working interests of 1.4 percent to 3.3 percent in four producing Keg River oil wells and one shut-in gas well in the Rainbow area. Three of the oil wells are very prolific. The 2-23-109-5W5M oil well has produced 118,000 barrels of oil since going on stream in August 1983, and is currently producing at a rate of 210 barrels of oil per day. The 2-20-107-9W6M well, which went on stream in June 1982, has produced 237,000 barrels of oil, and is producing at a rate of 250 barrels of oil per day. The 9-18-107-9W6M well was placed on stream in August 1983, and is currently producing 330 barrels of oil per day, with cumulative production of 181,000 barrels.



N.E. RAINBOW AREA, Alberta



S.W. RAINBOW AREA, Alberta

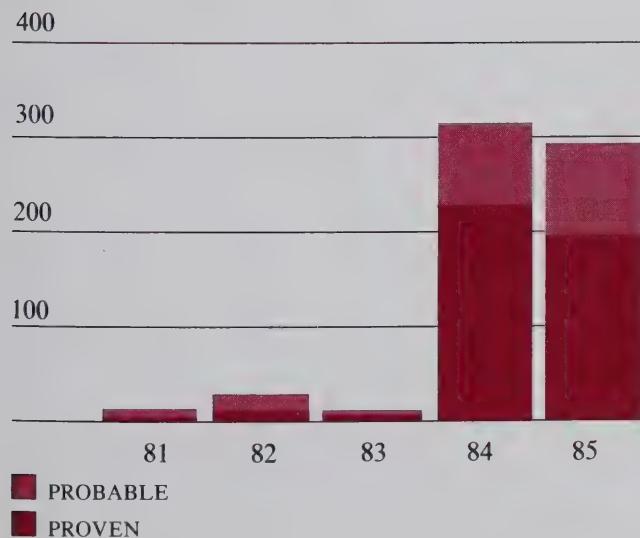
- CANADIAN PIONEER Land
- Location
- Oil Well
- ★ Gas Well
- ◆ Oil & Gas Well
- ◆ Dry & Abandoned Well
- ☒ Abandoned Oil/Water Injection

## Reserves

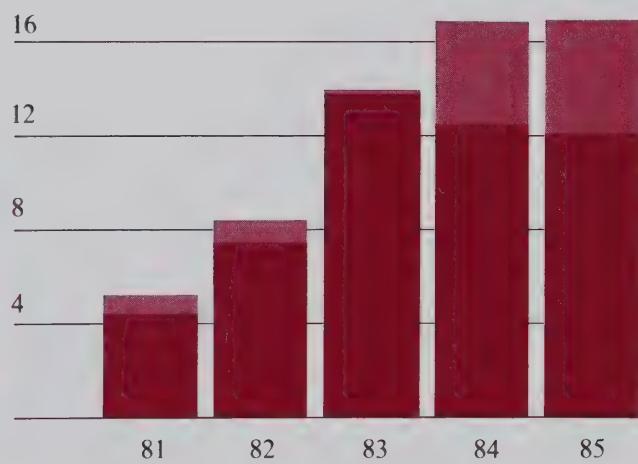
Canadian Pioneer's major oil and gas properties, representing approximately 85 percent of the Corporation's total reserves, were evaluated at year end by Coles Nikiforuk Pennell Associates Ltd., an independent engineering consulting firm. The minor properties, which represent about 15 percent of total reserves, were estimated in-house by adjusting previous consultant evaluations to reflect subsequent production and reservoir performance. Reserves changed very little from 1984 to 1985 as the Corporation's drilling resulted in new reserves which replaced production.

	Reserves Before Royalties					
	Canada		United States		Total	
	Oil MSTB	Gas BCF	Oil MSTB	Gas BCF	Oil MSTB	Gas BCF
<u>1985</u>						
Proved	163.4	10.9	36.3	1.2	199.7	12.1
Probable	77.2	4.4	16.6	.5	93.8	4.9
Proved and Probable	240.6	15.3	52.9	1.7	293.5	17.0
<u>1984</u>						
Proved and Probable	248.0	14.7	64.0	2.1	312.0	16.8

### Crude Oil Reserves (mstb)



### Natural Gas Reserves (bcf)



## Financial Review

Fiscal 1985 was one of significant financial improvement for Canadian Pioneer. Net earnings increased \$882,000 to \$328,000 (or 3¢ per share) from a loss of \$554,000 (or 20¢ per share) in 1984. In addition, cash flow from operations improved to \$1,090,000 for the year ended June 30, 1985 compared to a deficit of \$412,000 for the previous year in 1984. The improvements in earnings and operating cash flow were mainly attributable to increased production revenue which was partly offset by higher production, administrative and interest expenses.

During 1985, Canadian Pioneer changed to the full cost method of accounting for its oil and gas operations from the successful efforts method. The change in accounting policy places the Corporation on a comparable reporting basis with the majority of junior oil and gas companies in Canada.

Production revenue increased by 344 percent to \$3,056,000 in 1985 from \$688,000 in 1984 mainly as a result of the major oil and gas acquisition at the end of fiscal 1984, production increases from new wells and conversion of royalty interests to larger working interests in farmout wells.

Production expenses increased to \$592,000 in fiscal 1985 from \$168,000 in 1984 because of higher oil and gas production.

As a result of the Corporation's larger asset base general and administrative expenses increased to \$635,000 in 1985 up from \$417,000 in 1984. However these expenses have been reduced significantly as a percent of revenue from 76 percent in 1984 to 30 percent in 1985. In connection with the change in accounting policy to the full cost method, certain geological and geophysical expenses previously charged to general and administrative expense are now capitalized.

Interest on long term debt amounted to \$739,000 in fiscal 1985 compared to \$514,000 in fiscal 1984. The increase is attributable to the increase in debt incurred in connection with the acquisition of oil and gas properties at the end of fiscal 1984. Despite the \$225,000 increase in interest expense the Corporation's ratio of operating cash flow to interest expense improved to a coverage of 2.5 to 1 compared to 0.2 to 1 in the prior year.

Working capital at June 30, 1985 was \$499,000 compared to a deficit of \$142,000 at June 30, 1984, an increase of \$641,000. The principal sources of working capital were from operations, issues of common and preferred shares and long term debt. The principal uses of working capital were additions to oil and gas properties and increases in notes and deposits.

During the year the Corporation issued 8,000 First Preference, Series B shares and 572,277 common shares of which 72,597 were flow through shares. In addition the Corporation has agreed to issue by December 31, 1985 a further 187,820 flow through common shares for \$315,538 (\$1.68 per share). Total consideration for all the shares, including the flow through common shares to December 31, will amount to \$961,000.

At June 30, 1985 long term debt amounted to \$6,150,000. The Corporation's available credit lines total \$7,000,000 of which \$6,500,000 is a production financing facility and \$500,000 is an operating line. Based on current balances and asset coverage no debt repayment will be required until 1987.

### Revenues (\$ millions)



### Operating Cash Flow (\$ millions)



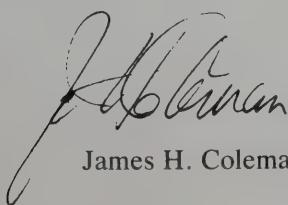
# Canadian Pioneer Oils Ltd.

## Consolidated Balance Sheet

As At June 30, 1985

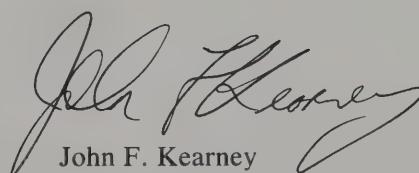
	<i>ASSETS</i>	<i>1985</i>	<i>1984</i>
			(restated) (note 2)
<b>CURRENT ASSETS</b>			
Cash	\$ 18,770	\$ 152,278	
Accounts receivable	918,428	613,075	
Prepaid expenses	35,100	13,140	
Total current assets	<b>972,298</b>	778,493	
<b>NOTES AND DEPOSITS (note 3)</b>	<b>305,293</b>	20,000	
<b>PROPERTY, PLANT AND EQUIPMENT (note 4)</b>	<b>12,562,717</b>	11,369,038	
Less accumulated depreciation and depletion	1,856,146	1,094,649	
	<b>10,706,571</b>	10,274,389	
	<b>\$11,984,162</b>	\$11,072,882	
 <b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 472,952	\$ 920,588	
<b>LONG-TERM DEBT (note 5)</b>	<b>6,150,000</b>	5,650,000	
<b>DEFERRED PRODUCTION REVENUE</b>	<b>413,753</b>	474,292	
 <b>SHAREHOLDERS' EQUITY</b>			
<b>CAPITAL STOCK (note 6)</b>			
First preference shares, Series A	505,613	505,613	
First preference shares, Series B	200,000	—	
Class A common shares	6,249,097	5,803,369	
	<b>6,954,710</b>	6,308,982	
<b>DEFICIT</b>	<b>2,007,253</b>	2,280,980	
	<b>4,947,457</b>	4,028,002	
	<b>\$11,984,162</b>	\$11,072,882	

Approved by the Board



James H. Coleman

Director



John F. Kearney

Director

The accompanying notes are an integral part of the consolidated financial statements.

## *Consolidated Statement of Earnings*

*Year Ended June 30, 1985*

	<b>1985</b>	<b>1984</b>
		(restated) (note 2)
Revenue		
Sale of oil and gas	\$3,055,580	\$ 687,996
Expenses		
Production	591,952	168,419
General and administrative	634,970	416,998
Interest on long-term debt	738,869	514,247
Depletion and depreciation	761,497	142,321
	2,727,288	1,241,985
Earnings (loss) before income taxes and extraordinary item	328,292	(553,989)
Deferred income taxes	75,200	—
Earnings (loss) before extraordinary item	253,092	(553,989)
Extraordinary item		
Income tax reduction on application of prior years' losses	75,200	—
NET EARNINGS (LOSS)	\$ 328,292	\$ (553,989)
NET EARNINGS (LOSS) PER COMMON SHARE		
Earnings (loss) before extraordinary item	\$0.02	\$(0.20)
Net earnings (loss)	\$0.03	\$(0.20)

## *Consolidated Statement of Deficit*

*Year Ended June 30, 1985*

	<b>1985</b>	<b>1984</b>
Deficit at beginning of year, as previously reported	\$(3,400,755)	\$(2,422,778)
Adjustment arising from change in accounting policy (note 2)	1,119,775	748,287
Deficit at beginning of year, as restated	(2,280,980)	(1,674,491)
Net earnings (loss)	328,292	(553,989)
Dividends on preference shares	(54,565)	(52,500)
DEFICIT AT END OF YEAR	\$(2,007,253)	\$(2,280,980)

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statement of Changes in Financial Position

Year Ended June 30, 1985

	1985	1984
		(restated) (note 2)
<b>WORKING CAPITAL DERIVED FROM</b>		
Operations	\$1,089,789	\$ (411,668)
Issue of shares	645,728	4,211,464
Long-term debt	500,000	1,873,857
Proceeds on sale of property, plant and equipment	77,000	158,569
	<b>2,312,517</b>	<b>5,832,222</b>
<b>WORKING CAPITAL APPLIED TO</b>		
Additions to property, plant and equipment	1,270,679	507,348
Notes and deposits	285,293	—
Decrease in deferred production revenue	60,539	4,704
Dividends on preference shares	54,565	52,500
Acquisition of subsidiaries, net of working capital acquired	—	5,317,288
	<b>1,671,076</b>	<b>5,881,840</b>
<b>INCREASE (DECREASE) IN WORKING CAPITAL POSITION</b>		
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	(142,095)	(92,477)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	<b>\$ 499,346</b>	<b>\$ (142,095)</b>

The accompanying notes are an integral part of the consolidated financial statements.

## Auditors' Report

To the Shareholders of  
Canadian Pioneer Oils Ltd.

We have examined the consolidated balance sheet of Canadian Pioneer Oils Ltd. as at June 30, 1985 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 30, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for petroleum and natural gas operations described in note 2, on a basis consistent with that of the preceding year.

The 1984 comparative figures are based on financial statements reported upon by other auditors.

Calgary, Canada  
September 11, 1985

  
Horne & Co. Inc.  
Chartered Accountants

# **Notes to Consolidated Financial Statements**

*Year Ended June 30, 1985*

## **1. Accounting Policies**

### **(a) Consolidation**

The consolidated financial statements include the accounts of Canadian Pioneer Oils Ltd. and its subsidiary companies, all of which are wholly owned.

### **(b) Petroleum and Natural Gas Operations**

Canadian Pioneer Oils follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized on a country by country basis. Costs include land acquisition costs, geological and geophysical costs, costs of drilling both productive and non-productive wells, and related overhead expenses. Such costs are accumulated net of proceeds from minor disposals of property. Capitalized costs, net of accumulated depletion and depreciation, are limited to future net revenues from estimated production of proved reserves at current prices and costs, plus the lower of cost or estimated fair value of unproved property.

Gains or losses are recognized upon the sale or disposition of property when the petroleum and natural gas reserves of the property are significant in relation to Canadian Pioneer Oils' total reserves in the particular cost centre.

### **(c) Depreciation and Depletion**

Depreciation and depletion of petroleum and natural gas property, plant and equipment is provided using the unit of production method based upon estimated proved reserves as determined by Canadian Pioneer Oils and independent consulting engineers.

Depreciation of other property and equipment is provided using a declining balance basis over the estimated life of each asset at annual rates varying from 10% to 30%.

### **(d) Foreign Currency Translation**

Financial statements of foreign subsidiaries are translated as follows:

- (i) Monetary assets and liabilities at year-end exchange rates; all other assets and liabilities at historical rates.
- (ii) Revenue and expense items are translated at average rates prevailing during the year except for depreciation and depletion which are translated at historical rates.

Exchange gains or losses, other than those resulting from long-term debt, are included in the determination of net income for the year. Exchange gains or losses resulting from long-term debt are deferred and amortized over the repayment period of the liability.

### **(e) Joint Venture Accounting**

Canadian Pioneer Oils accounts for its joint venture activities using the proportionate consolidation method.

## 2. Change in Accounting Policy

In 1985, Canadian Pioneer Oils adopted, on a retroactive basis, the method of accounting for petroleum and natural gas operations described in note 1(b). Previously Canadian Pioneer Oils followed the successful efforts method of accounting.

The effect of this change in accounting policy on the consolidated financial statements is summarized as follows:

	1985	1984
Decrease in deficit at beginning of year	\$1,119,775	\$ 748,287
Increase in net earnings	<u>690,929</u>	<u>371,488</u>
Increase in property and equipment	<u><u>\$1,810,704</u></u>	<u><u>\$1,119,775</u></u>

This change in accounting policy increased both earnings before extraordinary item and net earnings per common share by \$0.07 (1984 — \$0.11).

## 3. Notes and Deposits

	1985	1984
Notes receivable from an officer and director		
Non-interest bearing, repayable in five equal annual instalments commencing January 1, 1986 (note 6)	\$165,000	\$ —
Interest bearing at 10%, due January 1, 1990 (note 6)	<u>100,000</u>	<u>—</u>
	265,000	—
Note receivable, non-interest bearing, payable on demand	40,293	—
Deposits	<u>—</u>	<u>20,000</u>
	<u><u>\$305,293</u></u>	<u><u>\$20,000</u></u>

## 4. Property, Plant and Equipment

	1985	1984		
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon	\$12,456,273	\$1,829,199	\$10,627,074	\$10,207,692
Other equipment	<u>106,444</u>	<u>26,947</u>	<u>79,497</u>	<u>66,697</u>
	<u><u>\$12,562,717</u></u>	<u><u>\$1,856,146</u></u>	<u><u>\$10,706,571</u></u>	<u><u>\$10,274,389</u></u>

## 5. Long-Term Debt

The revolving bank loan is available to a maximum of \$6,500,000 until January 1986 at which time it will be converted into a reducing loan maturing December 1992. Based upon the balance outstanding at June 30, 1985, the estimated payments until maturity are as follows: 1987, \$750,000; 1988, \$850,000; 1989, \$1,000,000; 1990, \$1,000,000; 1991, \$1,000,000; 1992, \$1,550,000.

The long-term debt bears interest at bank prime rate plus  $\frac{1}{4}\%$  and is secured by accounts receivable and certain petroleum and natural gas properties.

## 6. Capital Stock

### (a) Authorized

100,000,000 Class A common shares without nominal or par value

8,000,000 First preference shares with a stated capital of \$25 per share, issuable in series, of which 100,000 shares have been designated as Series A 10% cumulative, redeemable, non-voting, convertible first preference shares and 20,000 have been designated as Series B 10% cumulative, redeemable, retractable, non-voting, convertible first preference shares.

20,000,000 Second preference shares with a stated capital of \$10 per share, issuable in series.

### (b) Issued and to be issued

	First Preference Series A		First Preference Series B	
	Number of Shares	Consideration	Number of Shares	Consideration
Balance June 30, 1983 and 1984	21,000	\$505,613	—	\$ —
Issued				
For cash	—	—	8,000	200,000
Balance June 30, 1985	<u>21,000</u>	<u>\$505,613</u>	<u>8,000</u>	<u>\$200,000</u>
	Class A Common			
	Number of Shares	Consideration		
Balance June 30, 1983	3,026,004	\$1,591,905		
Issued				
For cash	150,000	300,000		
For services rendered	40,000	42,500		
On acquisition of subsidiaries	6,666,666	3,868,964		
Balance June 30, 1984	<u>9,882,670</u>	<u>5,803,369</u>		
Issued and to be issued				
For cash (note 3)	275,000	165,000		
For exploration expenditures	72,597	121,963		
For services rendered	224,680	158,765		
Balance June 30, 1985	<u>10,454,947</u>	<u>\$6,249,097</u>		

The Company has agreed to issue up to 260,417 Class A common shares at \$1.68 per share. The proceeds of the share issuance have been committed exclusively for petroleum and natural gas exploration purposes in Canada in 1985. The purchaser of the shares acquires the rights to any related income tax benefits arising from the expenditures. As at June 30, 1985 72,597 shares are to be issued pursuant to this agreement.

### (c) Preference Shares

The First Preference Shares, Series A may be converted at any time up to June 30, 1988, at the option of the holder, into Class A common shares of Canadian Pioneer Oils. The conversion price was \$3.00 per Class A common share until June 30, 1985 and thereafter increased to \$3.50 per Class A common share. Dividends on First Preference Shares, Series A are payable quarterly. These shares are non-voting unless Canadian Pioneer Oils has failed to pay dividends for six consecutive quarters. As of June 30, 1985 there are no dividends in arrears.

Canadian Pioneer Oils may redeem the First Preference Shares, Series A at any time provided that the current market price of the Class A common shares on the date of notice of redemption exceeds 130% of the conversion price then in effect. The First Preference Shares, Series A are redeemable at \$26.25 per share to June 30, 1986, thereafter declining annually by \$0.25 until June 30, 1991. Canadian Pioneer Oils has agreed to

redeem and cancel 1½% of the issued and outstanding First Preference Shares, Series A quarterly, commencing July 1, 1986.

The First Preference Shares, Series B may at any time, at the option of the holder be converted to Class A common shares at a rate of 44 Class A common shares for one First Preference Share, Series B. The holder may require Canadian Pioneer Oils to repurchase or Canadian Pioneer Oils may redeem the shares at any time at \$25.00 per share together with any declared and unpaid dividends.

(d) **Warrant**

A warrant entitling the holder to acquire up to 150,000 Class A common shares at \$2.00 per share expires on September 30, 1986.

(e) **Stock Option Plan**

As at June 30, 1985 options to purchase 995,000 Class A common shares are outstanding, exercisable from time to time to November 1989 at \$0.60 per share.

**7. Income Taxes**

The income tax provisions in 1985 and 1984 differ from the amounts that would have resulted had the Canadian federal statutory tax rate been applied to the earnings before income taxes and extraordinary item, as follows:

	1985		1984	
	Amount	Percent of Pre-Tax Earnings	Amount	Percent of Pre-Tax Earnings
Computed income tax expense (recovery) at statutory rate	\$ 151,014	46	\$(254,835)	46
Increase (decrease) in income taxes resulting from				
Non-deductible provincial royalties and rentals	130,180	40	7,898	(1)
Less related allowances and rebates	(161,345)	(49)	—	—
	(31,165)	(9)	7,898	(1)
Unrecognized tax benefit of losses	—	—	246,937	(45)
Earned depletion	(18,745)	(6)	—	—
Other	(25,904)	(8)	—	—
	(75,814)	(23)	254,835	(46)
Actual income tax expense	\$ 75,200	23	\$ —	—

At June 30, 1985 Canadian Pioneer Oils had tax losses carried forward and unclaimed costs for income tax purposes of \$14,142,000.

The potential tax benefit related to the above amounts has not been reflected in the consolidated financial statements. Tax losses carry forward aggregating \$6,868,000 expire from time to time from 1986 to 2000 (\$6,825,000 do not begin to expire until subsequent to 1990).

## 8. Segmented Information

Canadian Pioneer Oils is primarily engaged in one industry, petroleum and natural gas exploration, development and production. Information respecting Canadian Pioneer Oils' operations by geographic segment is summarized as follows:

	1985		
	Canada	United States	Total
Sale of oil and gas	\$2,460,050	\$ 595,530	\$ 3,055,580
Operating profit	\$1,602,477	\$ 99,654	\$ 1,702,131
General and administrative			(634,970)
Interest on long-term debt			(738,869)
Earnings before income taxes and extraordinary item			\$ 328,292
Identifiable assets			
Property and equipment	7,207,966	3,498,605	\$10,706,571
Other	1,162,521	115,070	1,277,591
	<u>\$8,370,487</u>	<u>\$3,613,675</u>	<u>\$11,984,162</u>
	1984		
	Canada	United States	Total
Sale of oil and gas	\$ 540,010	\$ 147,986	\$ 687,996
Operating profit	\$ 361,933	\$ 15,323	\$ 377,256
General and administrative			(416,998)
Interest on long-term debt			(514,247)
Earnings before income taxes and extraordinary item			<u>(553,989)</u>
Identifiable assets			
Property and equipment	6,566,900	3,707,489	\$10,274,389
Other	573,779	224,714	798,493
	<u>\$7,140,679</u>	<u>\$3,932,203</u>	<u>\$11,072,882</u>

## 9. Comparative Figures

Certain 1984 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1985.

## *Corporate Information*

### *Directors*

#### **Sylvester P. Boland**

Dublin, Ireland  
Executive Vice-President  
Northgate Exploration Limited

#### **James H. Coleman**

Calgary, Alberta  
Barrister & Solicitor  
Partner, Macleod Dixon

#### **Perry S. Davids**

Calgary, Alberta  
President  
Palm Gas & Oil Accounting Ltd.

#### **Ronald R.J. Derouin**

Calgary, Alberta  
President  
Canadian Pioneer Oils Ltd.

#### **Patrick D. Downey**

Toronto, Ontario  
Controller  
Northgate Exploration Limited

#### **David H. Erickson**

Calgary, Alberta  
Vice-President Exploration  
Canadian Pioneer Oils Ltd.

#### **Patrick J. Hughes**

Dublin, Ireland  
Chairman of the Board  
Northgate Exploration Limited

#### **John F. Kearney**

Toronto, Ontario  
Executive Vice-President  
Northgate Exploration Limited

#### **Thomas C. Riddell**

Calgary, Alberta  
Vice-President Land & Secretary  
Canadian Pioneer Oils Ltd.

### *Officers and Corporate Management*

#### **Patrick J. Hughes**

Mining Executive  
Chairman of the Board

#### **John F. Kearney**

Lawyer  
Chief Executive Officer

#### **Ronald R.J. Derouin**

Petroleum Engineer  
President and Chief Operating Officer

#### **Patrick D. Downey**

Chartered Accountant  
Vice-President & Treasurer

#### **David H. Erickson**

Petroleum Geologist  
Vice-President Exploration

#### **Thomas C. Riddell**

Petroleum Landman  
Vice-President Land & Secretary

#### **R. Steven Smith**

Chartered Accountant  
Controller

### *Subsidiary Companies*

Frontier Canadian Oils  
American Pioneer Oils Ltd.

### *Offices*

Executive and Head Office  
1701, 715 - 5th Avenue S.W.  
Calgary, Alberta T2P 2X6  
Telephone: (403) 265-9471  
Telecopier: (403) 294-1228

Toronto Office  
Suite 3140, P.O. Box 143  
1 First Canadian Place  
Toronto, Canada M5X 1C7  
Telephone: (416) 362-6683  
Telex: (06) 217766

Vancouver Office  
Suite 940  
800 West Pender Street  
Vancouver, B.C. V6C 2V6  
Telephone: (604) 682-5601

### *Registrar and Transfer Agent*

The Canada Trust Company  
505 - 3rd Street S.W.  
Calgary, Alberta T2P 1R4

### *Auditors*

Thorne Riddell  
1200, 205 - 5th Avenue S.W.  
Calgary, Alberta T2P 4B9

### *Legal Counsel*

Macleod Dixon  
1500, 324 - 8th Avenue S.W.  
Calgary, Alberta T2P 2Z2

### *Bankers*

The Bank of British Columbia

### *Stock Exchange Listing*

The Alberta Stock Exchange  
Share Symbol "CPO"

